

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

Notice LP-1684

For: State and County Offices

Additional Provisions for 1999 Mohair Recourse Loans

Approved by: Acting Deputy Administrator, Farm Programs



1 Overview

A

Background

Notice LP-1671 announced the 1999 FY Mohair Recourse Loan Program. Subparagraph 5 D explained the factors to consider when determining the applicable loan rate. Producers who do not meet the security requirements may provide CCC with a letter of credit.

Because a large amount of mohair is stored in Texas, lien searches must be performed and UCC-1 or other applicable financing statements as required by State law must be filed in Texas.

B

Purpose

This notice provides procedures for:

- letter of credit and accompanying sight draft
- waiver for mohair securing a loan
- conducting lien searches
- filing of UCC-1 in Texas.

2 Letter of Credit

A

Definition

A letter of credit is a document, issued by a bank or financial institution, in which the issuer agrees to accept drafts, under conditions set forth in the document, to be charged against previously established credit accompanied by a sight draft. For an example, see Exhibit 1.

Continued on the next page

Disposal Date

December 1, 1999

5-5-99

Distribution

State Offices; State Offices relay to County Offices

2 Letter of Credit (Continued)

B

Determining Sufficient Collateral

For producers to receive \$2.00 per pound on pledged adult mohair, additional financial security is required. If the producer does not have sufficient security to collateralize the loan--for example, they are no longer in the business of raising angora goats or do not have a sufficient herd size--then the producer may provide a letter of credit.

Calculate the letter of credit dollar amount by multiplying \$.75 times the total pounds pledged as collateral for the loan. For example, for a 1,000-pound loan, the dollar amount will be $$.75 \times 1,000 \text{ lbs.} = \750.00 .

C

Letter of Credit Requirements

County Offices shall provide the following information to the financial institution for inclusion in the letter of credit:

- dollar amount (the maximum amount which may be drawn on the letter of credit)
- expiration date (the date that the letter of credit will terminate)

Note: This date must not be earlier than 60 calendar days after the mohair loan matures.

- name of the financial institution's customer (producer)
 - address of the financial institution's customer (producer)
 - State and county
 - total principal of the loan
 - loan number
 - County Office address where the mohair loan is being made.
-

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2 Letter of Credit (Continued)

C

Letter of Credit Requirements (Continued)

Upon receipt, County Offices shall review the letter of credit to ensure that the following information is included:

- name of financial institution issuing the letter of credit
- address of the financial institution

Note: If different, include both the mailing and physical address.

- date of issuance by the financial institution
- letter of credit number

Note: The financial institution ordinarily assigns a number to letters of credit. **A number is required.**

- name of the official of the financial institution issuing the letter of credit
- title of the official of the financial institution issuing the letter of credit.

See Exhibit 1 for an example of a letter of credit.

D

Sight Drafts

A sight draft will be the **instrument** that County Offices will use to draw upon the letter of credit. Sight drafts are considered a “check” which the County Office will prepare to collect a portion of the loan by drafting on a letter of credit provided by the producer. For an example, see Exhibit 2.

The components of the sight draft are as follows:

- city and State for the location of the financial institution which issued the letter of credit
 - date of sight draft
 - name of the financial institution which issued the letter of credit
 - address of the financial institution
-

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2 Letter of Credit (Continued)

D

Sight Drafts (Continued)

- the amount of the sight draft

Note: This is the amount to be collected under the letter of credit. This amount may not exceed the maximum amount of the letter of credit.

- the number of the letter of credit on which the sight draft is being drawn
- name of the Agency official signing the sight draft
- title of the Agency official signing the sight draft

Note: This will ordinarily be CED.

- address of the County Office.
-

E

Security

The **original** letter of credits and sight drafts shall be kept in locked fireproof cabinets. To use a sight draft drawn upon a letter of credit, the original letter of credit with the original sight draft signed by CED must be delivered or mailed to the issuing financial institution.

3 Filing Financing Statement in Texas

A

Preparing Financing Statement

To ensure that mohair loans are fully covered by sufficient collateral, financing statements shall be prepared for each producer requesting a mohair loan to include both of the following:

- all existing mohair
- future production of mohair.

UCC-1 or other applicable financing statements required by State law are filed, protecting CCC's security interest for the mohair.

Use the following language as **collateral description** for financing statements filed according to this paragraph:

“All existing mohair production and future production of mohair.”

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3 Filing Financing Statement in Texas (Continued)

B
Filing
Instructions for
Mohair Stored in
Texas

For mohair stored in Texas, financing statements and lien searches must prepared and mailed to:

SECRETARY OF STATE, UCC SECTION
1019 BRAZOS, SUITE 505
PO BOX 13193
AUSTIN TX 78711-3193

Include with the mailing a remittance of \$10.00 for each UCC-3 being mailed. An additional \$5.00 must be included for each additional debtor.

If the mailing will include UCC-11 for lien search also, include in the remittance an additional \$10.00 for each UCC-11 along with a letter requesting UCC-3 be filed before conducting the lien search.

Note: UCC-3 and UCC-11 are available at <http://www.sos.state.tx.us>.

4 Releasing Mohair Collateral

A
Loan Waiver

A waiver must be requested before a mohair producer sells either loan or nonloan mohair.

B
Determining
Remaining
Security

County Offices shall determine if:

- the quantity and quality of the loan mohair is enough to satisfy the loan
- additional security plus the quantity and quality is enough to satisfy the loan.

If the requirements in this subparagraph are met, County Offices shall release the mohair using the waiver in Exhibit 3.

Example of Letter of Credit

Issuing Financial Institution _____

Address of Issuing Financial Institution: _____

Issue Date: _____

Irrevocable Letter of Credit No: _____

Account Party's Name: _____

Account Party's Address: _____

For Recourse Loan for Mohair

Producer: _____

County/State _____

Loan Amount _____

Loan Number _____

To: Commodity Credit Corporation
c/o Farm Service Agency

1. We hereby establish this irrevocable Letter of Credit in the favor for one or more drawing up to United States \$ _____. This Letter of Credit is payable at Issuing Financial Institution's office at the address specified above and expires with our close of business on _____.
2. We hereby undertake to honor your sight draft(s) drawn on the Issuing Financial Institution, for all or any part of this credit if presented at the office specified in paragraph 1 of this Letter of Credit on or before the expiration date.
3. This Letter of Credit is subject to the Uniform Customs and Practice (UCP) for Documentary Credits, 1993 Revision, International Chambers of Commerce Publication No. 500, and to the extent not inconsistent therewith, to the law of the State of _____.
4. If this credit expires during an interruption of business of the Issuing Financial Institution as described in Article 17 of the UCP, the Issuing Financial Institution specifically agrees to effect payment if this credit is drawn against within 30 days after the resumption of our business.

Sincerely,

Name: _____

Title _____

Name of Financial Institution _____

Example of Sight Draft

Sight Draft

Pay to the order of the Commodity Credit Corporation the sum of United States \$ _____

This draft is drawn under Irrevocable Letter of Credit Number _____.

Commodity Credit Corporation

By _____

Name: _____

Title: _____

Farm Service Agency

United States Department of Agriculture

Note: Use Agency letterhead for sight draft.

Example of Waiver

Waiver of Mohair

Name and Address of Producer	Crop Year	Farm Number	State & County Code
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Quantity Covered	Quantity Balance
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The undersigned is the holder of a lien on Mohair identified above. The mohair identified above is collateral for a Commodity Credit Corporation (CCC) loan. The undersigned agrees that the mohair pledged be released and proceeds shall be disbursed **(lien holders must check one of the following):**

1. _____ to the producer
2. _____ jointly to the producer and the undersigned lien holder
3. _____ jointly to the producer and the undersigned lien holder, less \$ _____.

Name and address of lien holder or Authorized Agent

Signature

Date